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## Chile

## GRAIN

## Wheat and Corn Annual Report

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**Report Highlights:**

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In spite of an increase in wheat planting intentions a smaller output is forecasted, which will result in an increase of imports when compared to the previous year. As corn production is expected to fall, imports are projected to expand as domestic demand keeps strong due to the continuously growing chicken and pork industry.

**Executive Summary:**

As a result of a significant fall in the total planted area and adverse weather conditions in MY2007, revised figures of wheat production show a significant fall when compared to the previous year. For MY2008, the latest planting surveys show an increase in planting intentions but our forecast of production are significantly lower as an extensive production areas was affected by a drought. Additionally, production was also affected by a significant increase in the cost of inputs. Therefore imports are forecast to be larger than in MY2007.

Although Chile's corn plantings increased in MY2008 total output fell as a result of adverse weather conditions. Forecasts for MY2009 show a fall in planted area and production mainly due to significant increases in costs of production which together with a fall in domestic and international corn prices reduced economic returns in corn production. As a result corn imports are expected to increase as consumption will keep expanding due to growth in the poultry and hog industries.

## **Commodities:**

Wheat

### **Production: Production**

Wheat is politically Chile's most important annual crop. There are an estimated 89,000 producers, of which a little over 10,000 producers are in the so-called subsistence group with little or no alternative crops (production). Just over 70,000 are small farmers, 5,000 are medium size producers and less than 3,000 are large producers.

Revised planting and production figures for MY2007 resulted smaller than previously estimated, because abnormal weather conditions did not allow farmers to plant all the initially projected areas. As a result, some large producers decided for alternative crops, mainly in Region IX (Temuco area). Principally due to high wheat prices, for MY2008 total planted area increased when compared to the previous year, but total production is expected to be smaller than the previous year, as most wheat production areas were affected by adverse weather conditions. Additionally, yields also fell due to the significant increase of the prices and availability of fertilizer. As a result, a large number of farmers in an effort to cut costs reduced the use of fertilizer, affecting yields. In addition, abnormal high temperatures and a severe drought in most production areas, reportedly affected also total output of wheat.

Due to a significant fall of wheat prices during the last few months and still high fuel and fertilizer prices, total planted area is expected to fall again in MY2009. Domestic wheat prices have been dropping as a result of falling international prices. International prices have been falling in response to an increase to world stocks. High fuel and fertilizers prices have increased wheat production costs to a point where farmers prefer lower cost and less risky crops like oats, primarily in the Ninth (Temuco) and Tenth (Osorno ) Regions where over 50 percent of the total wheat is planted.

### **Consumption: Consumption**

Total human consumption of wheat has been rather stagnant and in line with population increase during the last few years. But during MY2008 a significant increase in wheat and wheat flour prices affected negatively consumption of bread and bakery products reducing slightly total domestic consumption of wheat.

According to the local bakery association, Chileans consume an average of close to 100 kilos of bread per capita per year, making them the second largest consumers of bread in the Western hemisphere after Germany. Approximately 25,000 persons are employed in the industry. Domestic feed consumption of wheat has reportedly been expanding the last few years. A fast growing salmon and trout feed industry has become an alternative outlet for some wheat producers' production who have no storage capacity and have to sell their wheat right after harvest.

The milling industry is Chile's main wheat destination. An estimated 85 percent of total wheat supply (domestic production plus imports) is milled for flour. An estimated 80 percent of wheat flour is sold directly and produced by 85 milling facilities nationwide. Industry sources indicate that the wheat produced in Chile is in general of a lower quality than that required by the bread and pasta industry. It is mainly low in protein and the quality varies a lot.

### Trade: Trade

The revised import figures for MY2007 resulted lower than previously estimated due to a fall in demand of wheat and wheat products. For MY2008 imports are expected to grow as a result of lower expected harvest. Another increase is forecast for MY2009, as production is expected to fall again in response to higher costs and lower wheat prices.

Domestic import decisions are normally driven by price followed by quality, but sometimes price and/or quality take a back seat when a shipload needs to be filled. Under these conditions a higher price may be paid and/or a lower quality accepted for the remaining portion of the shipment. Consequently, although you would expect importers to get wheat from a U.S. supplier when a higher quality product is sought, the supplier in a third country, even with a lower quality product might get the sale.

### Production, Supply and Demand Data Statistics:

Wheat Chile	2007			2008			2009		
	2007/2008			2008/2009			2009/2010		
	Market Year Begin: Dec 2007			Market Year Begin: Dec 2008			Market Year Begin: Dec 2009		
	Annual Data Displayed		New Post	Annual Data Displayed		New Post	Annual Data Displayed		Jan
			Data			Data			Data
Area Harvested	295	271	271	280	295	281			270
Beginning Stocks	552	318	552	450	329	325			252
Production	1.357	1.293	1.218	1.130	1.357	1.027			1.150
MY Imports	903	1.130	805	1.200	1.100	1.100			1.000
TY Imports	823	1.088	1.088	1.000	1.000	795			950
TY Imp. from U.S.	360	518	518	0	650	400			400
Total Supply	2.812	2.741	2.575	2.780	2.786	2.452			2.402
MY Exports	12	12	0	15	13	0			0
TY Exports	12	12	0	15	12	0			0
Feed Consumption	200	200	150	200	200	150			150
FSI Consumption	2.150	2.200	2.100	2.150	2.200	2.050			2.050
Total Consumption	2.350	2.400	2.250	2.350	2.400	2.200			2.200
Ending Stocks	450	329	325	415	373	252			202
Total Distribution	2.812	2.741	2.575	2.780	2.786	2.452			2.402
Yield	5,	5,	4,4945	4,	5,	3,6548			4,2593

## Import Trade Matrix

<b>Country</b>	Chile		
<b>Commodity</b>	Wheat		
Time Period	Jan-Dec	Units:	M.T.
Imports for:	2007		2008
U.S.	518489	U.S.	399529
Others		Others	
Argentina	413095	Argentina	222331
Canada	147893	Canada	123083
New Zealand	7614	Uruguay	36819
Paraguay	976	Mexico	10012
		Netherlands	1662
		Paraguay	1500
Total for Others	0		0
Others not Listed	9		25
Grand Total	1088094		794983

## Author Defined: Price Band

Wheat and wheat flour imports are subject to surcharges or discounts outlined in the present price band system. The present values for the floor and ceiling prices are USD\$124 f.o.b. and USD\$144 f.o.b. respectively. These prices will remain fixed until Jun 15, 2009. The floor price is being adjusted downward by 2% a year until 2014, when the price band should disappear as it was agreed to in the FTA agreement with the United States. The reference price is a fixed amount in US dollar per ton and it is published six times a year. The reference price is based on an average of the daily price for the 30 days preceding the date of publication. For the first semester the relevant market is FOB at Argentinean port and for the second semester it is soft red winter wheat #2, FOB Gulf of Mexico. The reference price is determined based on the date of entry of the goods. For wheat flour imports, an additional 56% is applied to the values set under the wheat price band.

## Commodities:

Corn

## Production: Production

Economic returns for the previous year and futures expected prices are important but not the only factors for farmers when they decide to plant corn for the next year, weather and alternative crops are also important for a large number of producers. For MY2008, strong and rising international prices for corn as a result of falling stocks also increased domestic prices in Chile. As a result total planted area increased again, when compared to the previous marketing year but slightly less than our previous estimate. In spite of a larger

planted area, total output in MY2008 resulted smaller than previously estimated as an extensive production area was affected by a drought and higher than normal temperatures which made yield fall significantly. For MY2009, in spite of the good economic results obtained the previous marketing year a smaller planted area and production is estimated, mainly due to other factors like significant increase in the cost of inputs and the access to financing by most producers. Due to the slowly developing financial and economic crisis during last calendar year (2008) most commercial Banks tightened credits. Additionally, prices of inputs like fertilizers and fuel increased much more than the expected increase of the price of corn. Fertilizer prices doubled from September 2007 to September 2008, when corn planting decisions had to be made for the MY2009 production season. Additionally, yields were also affected by the increasing cost of inputs and as a result total output could fall more than our present estimates. For MY2010 sources have indicated that total planted area and production could fall further as international corn prices continue to fall.

### **Consumption: Consumption and Trade**

Corn imports did not expand as expected in MY2008, in spite of a smaller production of corn in MY2008. A significant fall in domestic consumption of corn for feed by the hog and poultry industries explains the fall in demand. As a result of higher corn prices in the domestic market the hog and poultry industries increased the usage of alternative feed sources like broken corn kernels, mixtures of corn and soybeans and sorghum which replaced corn in the still growing hog and poultry industries.

For MY2009, imports are forecasted to be much larger than the previous year as a smaller production is expected and the domestic demand for corn keeps growing due to the expanding hog and poultry industries.

Argentina is the largest supplier of bulk corn to Chile mainly because it continues to have cost/quality advantages as the trucks are loaded directly on the farms and driven across the border to the consumer's (in Chile) storage facilities, thus avoiding the unloading and loading

of ships at the port and reducing total transportation costs. But, since the import duty for Argentinean and US corn became the same (zero %) in January 2006, Chilean importers have started buying increasing amounts of US corn because of quality and reliability of supplies, as it was stated by industry sources.

### **Production, Supply and Demand Data Statistics:**

Corn Chile	2007			2008			2009		
	2007/2008			2008/2009			2009/2010		
	Market Year Begin: Mar 2008			Market Year Begin: Mar 2009			Market Year Begin: Mar 2010		
	Annual Data Displayed		New Post	Annual Data Displayed		New Post	Annual Data Displayed		Jan
			Data			Data			Data
Area Harvested	137	135	135	110	137	128			125
Beginning Stocks	526	341	526	401	482	304			319
Production	1.500	1.566	1.365	1.210	1.589	1.210			1.375
MY Imports	1.600	1.950	1.347	2.000	1.800	1.640			1.476
TY Imports	1.624	1.800	1.438	1.800	1.700	1.900			1.600

TY Imp. from U.S.	406	550	245	0	600	400			400
Total Supply	3.626	3.857	3.238	3.611	3.871	3.154			3.170
MY Exports	125	75	134	75	74	135			130
TY Exports	74	75	236	125	74	200			180
Feed Consumption	2.800	3.000	2.500	2.800	3.020	2.400			2.400
FSI Consumption	300	300	300	350	300	300			300
Total Consumption	3.100	3.300	2.800	3.150	3.320	2.700			2.700
Ending Stocks	401	482	304	386	477	319			340
Total Distribution	3.626	3.857	3.238	3.611	3.871	3.154			3.170
Yield	11,	12,	10,1111	11,	12,	9,4531			11,

### Import Trade Matrix

<b>Country</b>	Chile		
<b>Commodity</b>	Corn		
Time Period	Jan-Dec	Units:	M.T.
Imports for:	2007		2008
U.S.	357163	U.S.	244728
Others		Others	
Argentina	1345652	Argentina	1122294
Paraguay	43583	Brazil	69294
Bolivia	4962	Bolivia	926
Uruguay	504	Paraguay	730
Peru	50	Peru	92
Mexico	9	Mexico	9
Total for Others	1394760		1193345
Others not Listed	0		0
Grand Total	1751923		1438073